

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-07 AID-05 CEA-01
CIAE-00 COME-00 EPG-02 DODE-00 EB-07 FPC-01 H-02
INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04
USIA-15 OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-10
PA-02 PRS-01 /118 W
-----081132Z 071995 /15

R 062040Z MAY 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 1496
INFO AMEMBASSY QUITO
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

UNCLAS BRASILIA 3660

E.O. 11652: N/A
TAGS: ENRG, ETRD, BR, EC
SUBJECT: NEW TWIST TO BRAZIL-ECUADOR OIL DEAL

REF: (A) BRASILIA 3188, (B) BRASILIA 3480

1. SUMMARY: THE LOCAL PRESS REPORTS THAT IN LIGHT OF PETROBRAS' OBJECTION TO THE HIGH COST OF ECUADOREAN OIL DELIVERED TO BRAZIL, THE GOB IS NOW CONSIDERING THE PURCHASE OF ECUADOREAN OIL FOR LATER RESALE TO THE US. END SUMMARY.

2. O ESTADO DE SAO PAULO REPORTED ON APRIL 30 THAT PETROBRAS HAS CHANGED ITS ATTITUDE TOWARD A PROPOSED BRAZIL-ECUADOR OIL DEAL (REFTELS). WHILE PETROBRAS IS STILL OPPOSED TO THE PURCHASE OF ECUADOREAN OIL FOR BRAZILIAN CONSUMPTION BECAUSE OF THE HIGH COST OF THIS OIL DELIVERED TO BRAZIL, IT IS REPORTEDLY STUDYING THE POSSIBILITY OF PURCHASING ECUADOREAN OIL FOR RESALE TO THE US. THE ARTICLE STATED THAT PETROBRAS IS ALREADY INVOLVED IN THIS KIND
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OF OPERATION IN OTHER COUNTRIES, AND THAT OVERSEAS PETROLEUM RESALE OPERATIONS HAVE ALREADY PASSED THE US\$300/MILLION YEAR LEVEL. SOME OF THESE OPERATIONS INCLUDE THE MORE PROFITABLE SALE OF REFINED PRODUCTS.

3. ACCORDING TO THE ARTICLE, PETROBRAS IS THINKING IN TERMS OF US\$40 MILLION/YEAR IN PETROLEUM PURCHASES FROM

ECUADOR. THIS IS NOT A LARGE AMOUNT, BUT PETROBRAS IS ENCOURAGED BY THE PROSPECT THAT THE TRANSACTION MAY INCLUDE THE SALE OF BRAZILIAN GOODS AND SERVICES TO ECUADOR. INTERBRAS, THE PETROBRAS TRADING COMPANY SUBSIDIARY, IS REPORTEDLY FOLLOWING THE BRAZIL-ECUADOR DEAL QUITE CLOSELY. AMONG THE PRODUCTS THE ARTICLE MENTIONED THAT BRAZIL WANTED TO SELL TO ECUADOR WERE ROADBUILDING AND HYDROELECTRIC ENGINEERING SERVICES AND HOUSEHOLD APPLIANCES. FYI, THE HOUSEHOLD APPLIANCE SECTOR IN BRAZIL IS IN A RECESSION AND THE RECENT DECREASES IN GOB INFRASTRUCTURE EXPENDITURES MAY HAVE HURT BRAZILIAN ENGINEERING COMPANIES. END FYI.

4. THE ARTICLE REPORTED THAT UNDER THIS ARRANGEMENT THE ONLY ISSUE HOLDING UP AN AGREEMENT WAS THE PRICE OF THE OIL. BRAZIL OF COURSE WANTS A PRICE WHICH MAKES RESALE OF THE OIL ECONOMICALLY ATTRACTIVE.

5. COMMENT. IT IS NOTEWORTHY THAT THE ARTICLE DID NOT MENTION POSSIBLE ECUADOREAN OBJECTIONS TO THE PROPOSED PETROBRAS ARRANGEMENT, SUCH AS THE LIKELY NEED OF ECUADOR DISCOUNTING THE PRICE OF ITS OIL AND ECUADOR'S PROBABLE RELUCTANCE TO ENTER INTO AN ARRANGEMENT UNDER WHICH IT WOULD HAVE TO COMPETE WITH PETROBRAS (SELLING ECUADOREAN OIL, NO LESS) IN THE US MARKET. END COMMENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, TRADE AGREEMENTS
Control Number: n/a
Copy: SINGLE
Sent Date: 06-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BRASIL03660
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770161-1248
Format: TEL
From: BRASILIA
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770587/aaaacwvp.tel
Line Count: 88
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 94c88a99-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 BRASILIA 3188, 77 BRASILIA 3480
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 28-Oct-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2620805
Secure: OPEN
Status: NATIVE
Subject: NEW TWIST TO BRAZIL-ECUADOR OIL DEAL
TAGS: ENRG, ETRD, BR, EC
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/94c88a99-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009